Shani Abromowitz
SOS : E4E Edible Landscaping
W5 (W7)
Winter

Week 5 at Enterprise for Equity focused on Pricing and Breakevens. We were suppose to have an insurance agent come out and talk to us this week, but they cancelled, so we had a slimmer class than usual. Pricing your products is based on profit, sales, costs, gross profit, volume, variable costs (COGS), fixed costs, and breakevens. Breakeven is the point where the sales cover the COGS and overhead allocation. I'll introduce a few simple calculations to figure out these values.

GLOSSARY

- Profit: Sales - Costs
- Sales: Units x Price
- Costs: Fixed Costs + Variables
- Gross Profit (Gross Margin): Sales - COGS
- Volume: Number of units sold or services provided
- Variable Costs (COGS): All costs dependent on volume produced
- Fixed Costs (Overhead): All constantly recurring costs
- Breakeven: The point of which volume of sales revenue equals total costs of making those sales

These values can be displayed in a prospective view (Cash Flow Projections), current view (Balance Sheet), or retrospective view (Profit and Loss Sheet), as I mentioned last week. Defining these values takes a bit of market research: What can the market bear? What do your competitors charge? Is the demand for your product growing or shrinking? Additionally, is the price for your product elastic? This is to ask, if the economy were to change, and you start asking for higher prices, will people see your product as worth the price? For instance, the latest boombox for my car's trunk is not what I'm going to spend an extra $500 on if the price changes or the economy starts to fail. Food though? I'll spend money on food no matter the price. Food has a low price elasticity, whereas the boombox has a high price elasticity. The more dramatic the price difference, the more dramatic the consumer reaction- i.e the more elastic the price. This isn't named, nor defined very intuitively, but it helps to know your product's pricing elasticity. My edible landscaping business produces hours of my time. My product is my time.

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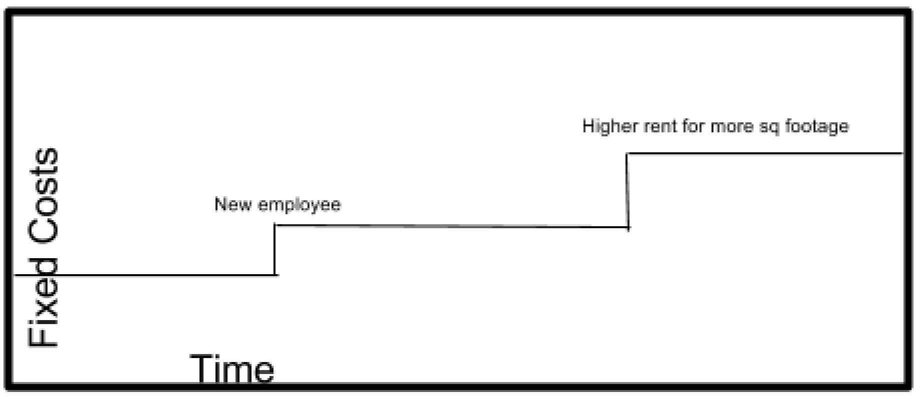
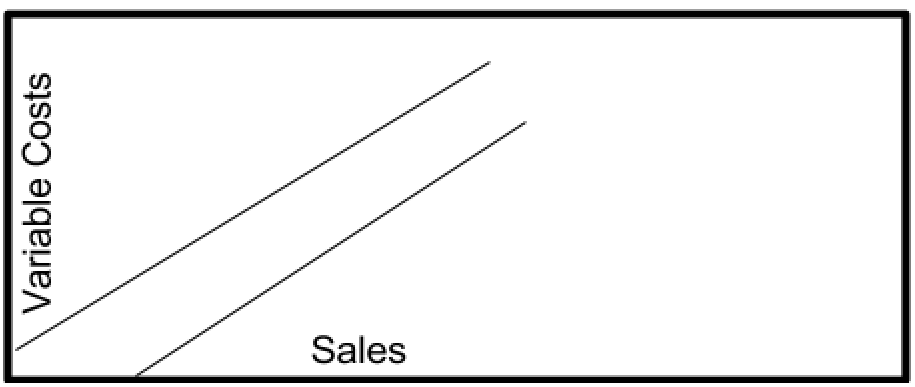
My product would have a high price elasticity, **if not** for the fact that I market my product to people who have the money to afford it, and are thus less affected by the economy and less sensitive to my pricing. I ask the price I do because I'm worth it and not willing to undersell my services.

Pricing the product also depends on Fixed Costs and Variable Costs. Shown visually, the two look like the figures below:





We did an exercise in class to attempt to properly price our products. Remember originally I wanted to price my time between $35-$45/hour. Using the below calculations with the values sourced from my Cash Flow Spreadsheet, let's see if I've asked a fair price for my time:

On an annual basis, my x is:

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A	Salary	$25K
B	Fixed Costs	$2504
C	Variable Costs	$1855
D	Total Fixed and Variable Costs (B+C)	$4359
E	Total Costs “Nut” (A+D)	$29,359
F	Profit @ 10%	$2,935.90
G	Total Costs	$32,394.90
H	Billable Hours/Y	752
I	Hourly Wage (G/H)	$42.9
J	Is this a reasonable price?	Yus, I am within range ($35-$45/hour)

So how many hours do I need to sell to breakeven, or to cover the costs it took to produce my offered time? We can figure out the

$$\textbf{\# of Units need to Breakeven} = \frac{\textbf{Fixed}}{\textbf{(Unit Selling Price - COGS/Unit)}}$$

Applied to my business the values look like:

$$\text{Hours needed to BE} = \frac{\$29359}{\$45-\$2} \rightarrow \frac{\$29359}{43} \rightarrow \textbf{682.76}$$

This means I need to sell 682.76 hours of my time at $45/hour annually to breakeven. If I sell more than 683 hours my business has made a profit, and if I sell less than that my business is at a loss. That equals 56 hours per month, and 14 hours per week of actual paid labor. That feels very good.

These pricing strategies are powerful and simple methods to figuring out the true value of your product and how much of that product you have to sell to make your investment money back. For homework this week Joanne has assigned us:

- O A pricing strategy and narrative
- O The breakeven analysis in dollars or units
- O Everything in the Business Plan up to this point

Until next week!
Shani A